

## Paper Specific Markscheme

In addition to the assessment criteria use the paper-specific markscheme below. Award up to the maximum marks indicated.

### 1. (a) Define the following terms indicated in bold in the text:

#### (i) demand (paragraph ①) [2 marks]

level

0 Wrong definition 0

1 Vague definition 1

The idea that it means consumers' want, need or desire for a product with the ability to pay for it.

2 Precise definition 2

An explanation that demand is the quantity of goods and services that consumers are willing, and able to buy at each possible price (over a given period of time).

#### (ii) oligopoly (paragraph ③). [2 marks]

level

0 Wrong definition 0

1 Vague definition 1

The idea that it is an industry in which there are a few large firms.

2 Precise definition 2

An explanation that it is an industry where there are a few large firms, with at least one other characteristic of the market form.

PEO : A measure of the responsiveness of quantity demanded to a change in price of a good  
- correct formula is acceptable

- (b) Using an appropriate demand and supply diagram, explain the impact of the SARS virus on the airline industry in the Asia-Pacific region. [4 marks]

level

- |   |  |     |
|---|--|-----|
| 0 | <i>Inappropriate answer</i>  | 0   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing a demand/supply diagram indicating a decrease in demand/shift to the left for airline tickets <b>or</b> providing an explanation of how the SARS virus impacted on the airline industry.                | 1-2 |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing a demand/supply diagram indicating a decrease in demand/shift to the left for airline tickets <b>and</b> providing an accurate explanation of how the SARS virus impacted on the airline industry. | 3-4 |

- (c) Using appropriate diagram(s), explain why the price elasticity of demand for travel by business travellers is likely to differ from that of tourists. [4 marks]

level

- |   |  |     |
|---|--|-----|
| 0 | <i>Inappropriate answer</i>  | 0   |
| 1 | <i>Identification of appropriate theory</i><br>For drawing appropriate demand diagrams illustrating the relative PED for air travel by business travellers and tourists <b>or</b> for demonstrating an understanding of the factors which may influence the relative PED for air travel by business travellers and tourists.       | 1-2 |
| 2 | <i>Correct application of appropriate theory</i><br>For drawing appropriate demand diagrams illustrating the relative PED for air travel by business travellers and tourists <b>and</b> for demonstrating an understanding of the factors which may influence the relative PED for air travel by business travellers and tourists. | 3-4 |

Candidates are likely to argue that business travel will have more inelastic demand for air travel than tourists. A range of answers are possible and should be rewarded.

- (d) Using information from the text and supply and demand analysis, evaluate the likely future movements in ticket prices. *[8 marks]*

Responses may include:

- increase in demand as the fear of SARS diminishes leading to higher prices and more air travel
- possible increase in supply as regional carriers pick up businesses and, eventually, as foreign carriers re-enter the market. This would reduce prices and increase air travel
- possible switch to substitute methods of communication for business meetings, shifting demand to the left and lowering prices
- cut price tickets may lead to a price war.

Evaluation may be based on short run/long run price effects.

Examiners should be aware that candidates may take a different approach which if appropriate should be fully rewarded. If there is no direct reference to the data, then candidates may not be rewarded beyond Level 2.

**Level**

0	No valid discussion.	0
1	Few relevant concepts recognized. Little discussion or only basic understanding.	1-2
2	Relevant concepts recognized and developed in reasonable depth. Some attempt at application and analysis.	3-5
3	Relevant concepts developed in reasonable depth, demonstrating effective evaluation, supported by appropriate evidence or theory.	6-8